

The STOCK Act will prohibit Members of Congress and Federal Employees from Profiting on Nonpublic Information

WASHINGTON – Congresswoman Louise Slaughter (NY-28), Ranking Member of the House Rules Committee, and Congressman Tim Walz (MN-01) yesterday re-introduced legislation to prohibit insider trading on Capitol Hill saying Members of Congress should play by the same rules as everyone else.

The Stop Trading on Congressional Knowledge Act, or STOCK Act, would prohibit Members of Congress and federal employees from profiting from nonpublic information they obtain via their official positions, and require greater oversight of the growing “political intelligence” industry.

The reintroduction of the STOCK Act comes during Sunshine Week, as citizens and government of all levels work across the country to promote greater accountability and transparency.

“This bill is about transparency and fairness,” said Congresswoman Slaughter. “As it stands today, neither Members of Congress nor their staff can be held legally accountable for making personal investment decisions based on non-public information.□ Even more troubling is that unregistered firms might be using Congressional nonpublic information to make financial transactions at the expense of the average investor. This bill places those individuals under insider trading rules and enhanced disclosure rules.”

“This is a matter of equality under the law,” said Congressman Walz, “The same standards we have established for Wall Street should apply to Congress. The potential for abuse is obvious and troubling and there is simply no good reason Congress should get to play by a separate set of rules in the stock market.”

The STOCK Act has a broad base of support from organizations dedicated to government reform including Citizens for Responsibility and Ethics in Washington (CREW), Common Cause, Democracy 21, Public Citizen and U.S. PIRG. In a letter to both lawmakers, the organizations said, “This measure provides a balanced application of the laws against insider trading to both the private and public sectors and offers the important tool of disclosure for ensuring compliance with the law. The STOCK Act should be adopted by Congress before new scandals arise.”

A copy of their letter is attached.

The original version of the Stop Trading on Congressional Knowledge Act (STOCK Act) was introduced in 2006.

BACKGROUND

The Issue:

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Day Trading

There have been reports that Members of Congress and Congressional staff may have been engaged in, or were engaged in, day trading of securities. Nonpublic information about current or upcoming congressional activities may be used, or may have been used, in some of these trading decisions. For example, the *Wall Street Journal* reported that from 1999-2000 the Deputy Chief of Staff to then Majority Leader Tom Delay bought and sold hundreds of stocks from his congressional office computer. This information has been confirmed by other Delay aides and in year-end financial disclosure forms.

Political Intelligence

According to additional accounts, there is reason to believe some Members of Congress or their staff may have shared nonpublic information about current or upcoming Congressional activities with individuals outside of Congress working for political intelligence firms. These reports indicate that these individuals or their firms may have used this for investment purposes.

The increase in the number of political intelligence firms suggests that the leaking of nonpublic congressional information occurs regularly. What started out as a handful of firms in the 1970s, political intelligence firms have grown into an industry that brings in an estimated \$40 million a year.

What the STOCK Act Does:

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- Prohibits Members and employees of Congress from buying or selling securities, swaps, security based swaps, or commodity futures based on nonpublic information they obtain because of their status;
- Prohibits Executive Branch employees from buying or selling securities, swaps, security based swaps, or commodity futures based on nonpublic information they obtain because of their status;
- Prohibits those outside Congress from buying or selling securities, swaps, security based swaps, or commodity futures based on nonpublic information obtained from within Congress or the Executive Branch;
- Prohibits Members and employees of Congress from disclosing any non-public information about any pending or prospective legislative action for investment purposes;
- Requires Members and employees of Congress to report the purchase, sale or exchange of any stock, bond, or commodity future transaction in excess of \$1,000 within 90 days. Members and employees who choose to place their stock in holdings in blind trusts or mutual funds would be exempt from the reporting requirement; and,
- Requires firms that specialize in “political intelligence” and that obtain their information directly from Congress to register with the House and Senate, much like lobbying firms are now required to do.

Why the STOCK Act is Needed:

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There is no oversight authority on Congressional insider trading

Insider trading is the buying or selling of financial instruments on the basis of material, nonpublic information in violation of a duty of confidentiality – either to the issuing company or to the source of information. Under current law, Members of Congress and their staff do not owe a duty of confidentiality to Congress, and therefore are not liable for insider trading.

We need sunlight and transparency of the political intelligence industry

Political intelligence firms first appeared in the 1970s and have been on the rise in the past decade, but the industry remains relatively unknown because the firms are currently not required to register their clients or their earnings. By having these firms register with Congress along with lobbyists, the public will gain knowledge on who might be gaining an unfair advantage in the financial markets at the expense of the average financial investor.